



HIGH TECHNOLOGY RESEARCH AND DEVELOPMENT INCENTIVES

(HIGH TECH R&D)

CURRENT HIGH TECH R&D INCENTIVES

In 1994, the Legislature created tax incentives to encourage additional R&D in the high tech sector which expire on January 1, 2015.

A business must conduct R&D in one of the following 5 industries to qualify for the B&O tax credit and sales and use tax deferral/exemption:

- Advanced computing;
- Advanced materials;
- Biotechnology;
- Electronic device technology; or
- Environmental technology.

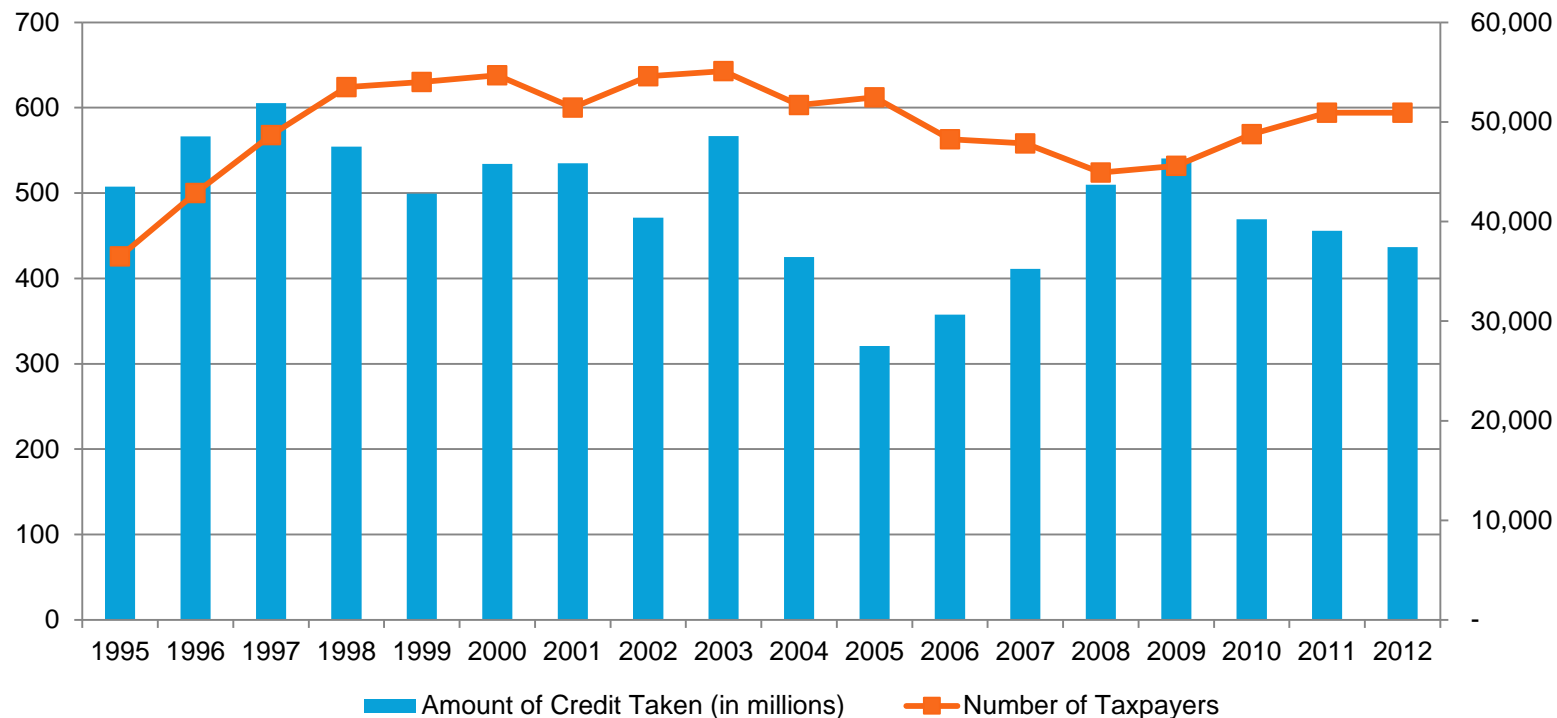
B&O TAX CREDIT

Qualified taxpayers may claim a B&O tax credit of up to \$2 million annually. The credit is allowed for expenditures in R&D in excess of 0.92% of the firm's gross taxable income. Eligible expenditures include:

- Operating expenses;
- Wages and benefits;
- Compensation of proprietors and partners;
- Consumable supplies;
- Computer expenses; and
- Payments to public education or research institutions.

Fiscal impact amounts to approximately \$28 million per year.

TAXPAYERS TAKING THE HIGH TECH CREDIT



SALES AND USE TAX DEFERRAL/EXEMPTION

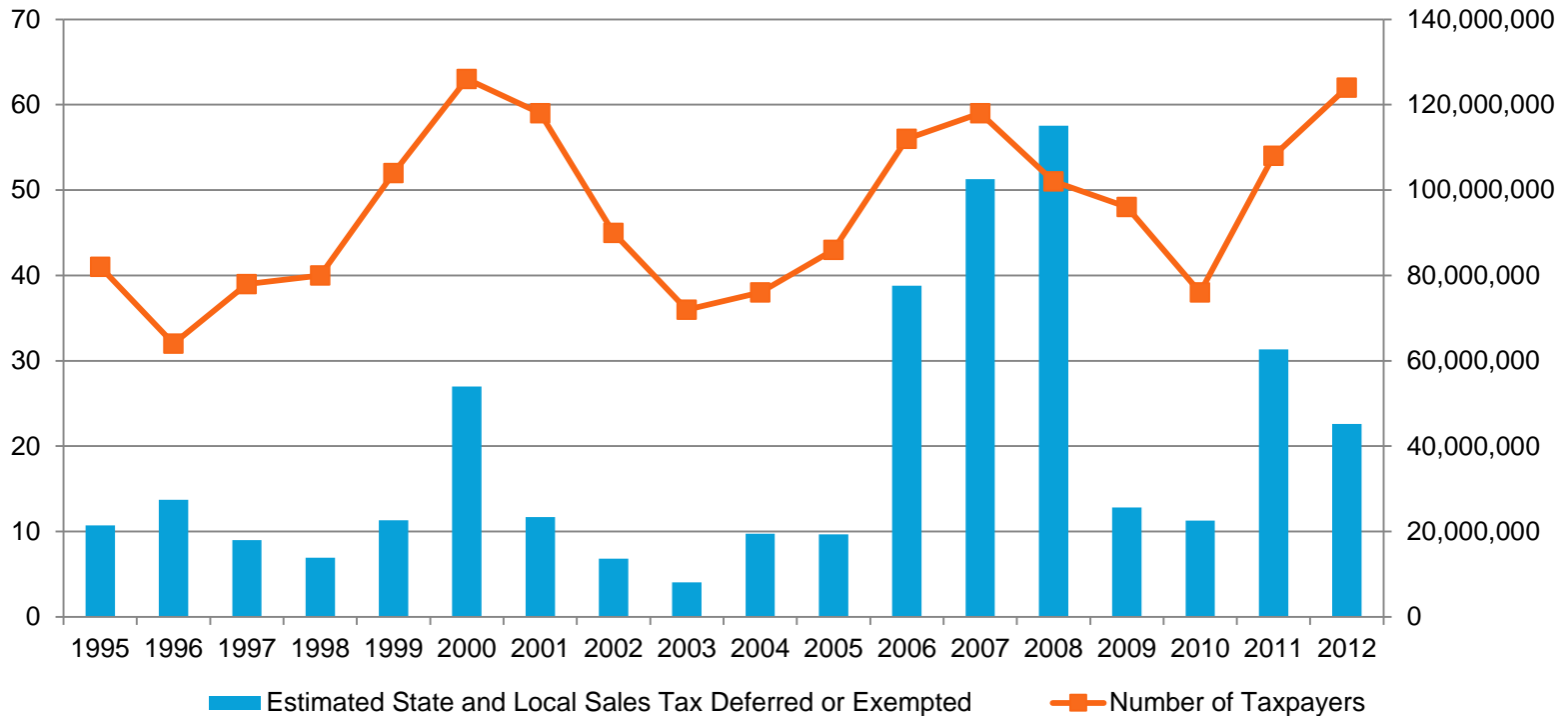
Expenditures eligible for the sales and use tax deferral include:

- the construction of R&D facilities and pilot scale manufacturing plants; and
- the purchase of related machinery and equipment.

Originally a deferral, but now an exemption or waiver if a facility is used for R&D purposes for at least 8 years.

Fiscal impact amounts to approximately \$36 million per year.

APPROVED R&D PROJECT BY DATE OF APPLICATION



GOVERNOR'S PROPOSAL

Extends the tax incentives for one year (expiring Jan. 1, 2016).

- During that year, the Governor will convene a work group to make recommendations on prioritizing state investment in the high tech sector.

Fiscal impact amounts to \$26.2 million in the 13-15 biennium and \$37.8 million in the 15-17 biennium.

DEPARTMENT OF REVENUE

DOR was required by the Legislature to study and prepare a report on high tech incentives. DOR studied the effects these incentives had on:

- Job creation;
- Jobs created for Washington residents;
- The introduction of new products;
- The diversification of the state's economy;
- Growth in R&D investment; and
- The movement of taxpayers or the consolidation of taxpayers into the state.

DEPARTMENT OF REVENUE'S FINDINGS FROM HIGH TECHNOLOGY STUDY

Findings:

- 2,400 taxpayers participated since 1995
- 600 taxpayers benefit each year, 95% of which take the B&O credit
- B&O credit has saved taxpayers \$434.2 million
- 383 taxpayers, between 1995-2012, invested \$8.2 billion in facilities and equipment. Sales and use taxes deferred for these projects amounted to \$692.9 million (\$510.2 million state & \$187.7 local)

HIGH TECH R&D INCENTIVE STUDY RESULTS

- Job creation – Cannot be tied to incentive programs. - 2.9% annual avg. growth for participants and 3% annual avg. growth for non-participants.
- Jobs created for WA residents – 86% of new employees hired in 2012 were WA residents based on the annual survey filled out by participants.
- The introduction of new products – Advanced computing has the most amount of new items produced (64%) and biotechnology has the most on-going projects (38%) .

CONT.

- The diversification of the state's economy – Increase of patents since 2007 in WA vs. flat numbers in other states.
- Growth in R&D investment – WA investments decreased during recession. Since 2009, they have increased at a greater rate than US.
- The movement/consolidation of taxpayers into the state – In 2012, the net movement of employees increased for the first time since 2008 by a net of over 400 employees moving to WA.

Incentive participants have a greater survival rate than non-participants:
53% vs. 39%

2012 TAX PREFERENCE PERFORMANCE REVIEW OF HIGH TECH R&D PREFERENCES

High Tech R&D tax preferences were reviewed by JLARC in 2012.

- JLARC recommends that the Legislature review and clarify the preferences
- The Commission does not endorse the recommendation and recommends allowing the preferences to expire in 2015.

REPORTS

Citizen's Commission on Tax Preferences Report 2012

**[http://www.leg.wa.gov/JLARC/AuditAndStudyReports/2012/
Documents/13-1.pdf](http://www.leg.wa.gov/JLARC/AuditAndStudyReports/2012/Documents/13-1.pdf)**

Department of Revenue High Technology Study 2013

**[http://www.dor.wa.gov/Docs/Reports/2013/High_Tech_2013.p
df](http://www.dor.wa.gov/Docs/Reports/2013/High_Tech_2013.pdf)**